

STATE OF INDIANA       )  
                                  ) SS:  
COUNTY OF MARION     )

BEFORE THE INDIANA  
COMMISSIONER OF INSURANCE

CAUSE NUMBER: IDOI MC 07 0302 039

IN THE MATTER OF:

State Farm Mutual Automobile Ins. Co (25178)  
State Farm Fire and Casualty Company (25143)  
their subsidiaries and affiliates, Respondent

Type of Agency Action: Market Conduct

**FILED**

MAY 20 2009

STATE OF INDIANA  
DEPT. OF INSURANCE

**FINAL ORDER**

The Indiana Department of Insurance (“the Department”) and the State Farm Mutual Automobile Insurance Company, State Farm Fire and Casualty Company, their subsidiaries and affiliates (“the Respondent”) signed an Agreement to resolve all issues concerning the market conduct examination of the Respondent.

The Commissioner, after reviewing the Agreement, finds it has been entered into fairly and without fraud, duress or undue influence, and is fair and equitable between the parties. The Commissioner hereby incorporates the Agreement, and its terms and conditions, as if fully set forth herein, and as attached as “Exhibit A”, and approves and adopts the Agreement as a resolution of the examination.

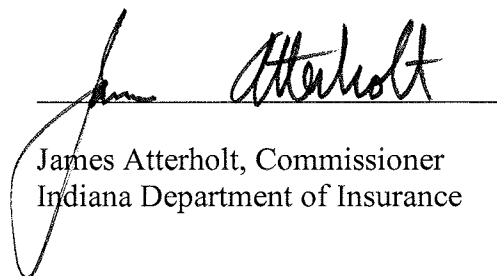
IT IS NOW ORDERED, ADJUDGED AND DECREED:

1. The Commissioner has subject matter jurisdiction over the matters at issue in this administrative proceeding and personal jurisdiction over the respondent.
2. Respondent was represented by legal counsel, understands the terms and scope of this

Agreement, voluntarily entered into this Agreement without duress and has waived their right to a hearing on the matter.

3. The Respondent understands that failure to comply with the Agreement and resulting Order may result in further administrative actions or consequences.
4. The Respondent shall remit to the Department two hundred seventy-five thousand dollars (\$275,000.00) to be deposited in the general fund pursuant to Ind. Code § 27-4-1-6 within thirty (30) days of the date of this order.
5. This order, as per the agreement, is not subject to judicial review.

ALL OF WHICH IS ORDERED THIS 20 DAY OF May, 2009.



James Atterholt, Commissioner  
Indiana Department of Insurance

Distribution:

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Chief Deputy Commissioner and Counsel  
INDIANA DEPARTMENT OF INSURANCE  
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STATE OF INDIANA )  
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BEFORE THE INDIANA  
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CAUSE NUMBER: IDOI MC 07 0302 039

IN THE MATTER OF:

State Farm Mutual Automobile Ins. Co. (25178) )  
 State Farm Fire and Casualty Company (25143) )  
 their subsidiaries and affiliates, Respondent )  
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 )

### AGREEMENT TO RESOLVE MARKET CONDUCT EXAMINATION

This Agreement ("Agreement") to resolve the Market Conduct Examination (the "Examination") is executed by Carol A. Mihalik, Attorney for and on behalf of the State of Indiana, Consumer Protection Unit of the Indiana Department of Insurance ("Department"), and Myra C. Selby, Ice Miller LLP, Attorney for State Farm Mutual Automobile Insurance Company, State Farm Fire and Casualty Company, their subsidiaries and affiliates ("Respondent"), an insurance company licensed to do business in Indiana, and a duly authorized employee of Respondent. This Agreement is subject to the review and approval of James Atterholt, Commissioner of the Department of Insurance ("Commissioner").

WHEREAS, Respondent is an insurance company domiciled in the State of Illinois and licensed to do business in the State of Indiana;

WHEREAS, the Department has the authority pursuant to Ind. Code § 27-1-1-1 and 27-1-3.1-9 to conduct examinations of any insurance company licensed in Indiana as often as the Commissioner, in the Commissioner's sole discretion, considers appropriate and the Department is responsible for enforcing the statutory provisions applicable to companies engaging in the business of insurance in the State of Indiana;

WHEREAS, on March 6, 2007, the Department issued an Examination Warrant No. IDOI-MC07-0302-039, pursuant to Ind. Code § 27-1-3.1 for the purpose of reviewing claims practices for handling property damage and losses during the period of April 14, 2006 to March 19, 2007 and reported as arising out of the Hail Storm of April 14, 2006 ("Claims");

WHEREAS, pursuant to the authority provided in Ind. Code § 27-1-3.1-9(d), the Commissioner appointed Bose McKinney & Evans, LLP ("BME") and Noble Consulting Services, Inc. ("Noble") as examiners for the purpose of examining the Respondent's claims handling practices in connection with the Hail Storm to determine Respondent's compliance with Indiana insurance laws. The costs of these examiners have been borne by Respondent;

WHEREAS, BME conducted a review of Respondent's claims handling practices and of Respondent's established standards, policies and procedures, and BME examined whether Respondent consistently applied its own standards, policies and procedures and complied with

EXHIBIT

A

Indiana law in connection with the Claims. The BME review included both the 242 complaints received within the Department as of March 6, 2007 and sampled Claims;

WHEREAS, all Claims received and reviewed were identified by Respondent as Cat, QY;

WHEREAS, Noble conducted a statistical review of the Claims and provided analytical support services to BME;

WHEREAS, in addition to the complaints reviewed by these examiners, the Department received, reviewed, and handled an additional 183 complaints, some of which included multiple complainants, resulting in 425 consumer complaints handled;

WHEREAS, at the conclusion of the investigation, the Department, BME and Noble raised the following areas of concern under Indiana law: (i) consistency of claims handling when independent adjusters were utilized, (ii) consistency of claims handling when engineers were utilized, (iii) application of the appraisal provision for the insurance policies, and (iv) speed and efficiency of claims payments that required multiple estimates and reinspections;

WHEREAS, the Respondent asserts that no violations of Indiana law have been established by the Department and the appointed examiners as a result of the Examination;

WHEREAS, Respondent asserts it has implemented changes to its claims handling procedures since April 14, 2006, that address the areas of concern stated above, and, more specifically, Respondent has made significant changes to the entire Cat (large scale claims events that in Respondent's discretion requires application of claim handling resources in addition to those available locally) operation, including the policies and procedures relating to independent adjusters, and such changes in the Cat operation were applied in the Indiana Cats of 2008;

WHEREAS, the Department and Respondent desire to resolve their differences and settle the issues relating to the Examination without further adjudicative efforts;

NOW, THEREFORE, in lieu of issuance of a final report and entrance of official findings of the Examination or a hearing on the matter, the parties agree to the following;

1. The Commissioner has jurisdiction over the subject matter and the Respondent in all matters relating to Respondent's compliance with Indiana Code, Title 27.
2. This Agreement is executed voluntarily by the parties.
3. The Respondent waives its rights to judicial review of the final order adopting this Agreement.
4. The Respondent voluntarily and freely waives its right to a public hearing on the Examination or matters arising out of the Claims.
5. The Department recognizes that \$1,799,544.00 (one million, seven hundred ninety-nine, five hundred forty-four dollars) paid by Respondent to policyholders as a result of

reinspections, or other efforts subsequent to the start of the examination, which includes monies already distributed by Respondent to consumers due to reinspections, arbitration results, or any additional efforts relating to Claims resulting from the Hail Storm. Total indemnification exceeds \$234,624,762.00 (two hundred thirty-four million, six hundred twenty-four thousand, seven hundred sixty-two dollars) for all claims arising from the Cat QY.

6. The Respondent shall establish specific processes, procedures and protocols to implement changes to Respondent's handling practices pertaining to Cat events. The Respondent shall identify any and all changes made to its claims handling procedures since April 2006 and applied during the Cats of 2008. The identified changes shall also include specific references to policies and procedures concerning consistency in the use of independent adjusters and engineers in claims, all of which to be verified by Noble.
7. The Respondent will review all claims filed by consumers who have filed consumer complaints with the Department to date as a result of Cat QY in order to determine whether they are eligible for readjudication, reevaluation, or some other remedial action based on specific protocols determined by agreement by and between the Department, through its staff and its designee Noble Consulting, and Respondent; and based on claims standards established in the Unfair Claims Settlement Practices Act and the NAIC Market Regulation Handbook.
8. The Department, through its staff and its designee Noble, will along with Respondent develop specific agreed protocols to identify and review claims files for readjudication, reevaluation, or some other remedial action. The review and protocol will incorporate the following groups of claims and begin no later than thirty days from the date of this agreement:
  - a. All Closed Without Payment ("CWP") claim files (approximately 7,000 claims). The review protocol and sample method and parameters will be determined by agreement by and between the Department, Noble, and Respondent and will follow the claims standards established in the Unfair Claims Settlement Practices Act and the NAIC Market Regulation Handbook. Claimants whose files upon review under the agreed upon protocol result in a determination that the established claims handling standards have not been met will be offered readjudication, reevaluation, or some other remedial action.
  - b. A statistically valid sample of claim files identifiable as Facility Code 90-91 (approximately 29,000 claims). The review protocol, sample method and parameters will be determined by agreement by and between the Department, Noble, and Respondent and will follow the claims standards established in the Unfair Claims Settlement Practices Act and the NAIC Market Regulation Handbook. Claimants whose files upon review under the agreed upon protocol result in a determination that the established claims handling standards have not been met will be offered readjudication, reevaluation, or some other remedial action.
  - c. A toll free telephone number will be made available to the Department to facilitate and direct any and all inquiries from policyholders concerning this agreement. Any

readjudication, reevaluation, or other remedial action that results from these calls will be reported to Noble for review.

9. The Respondent will remit to the Department \$275,000.00 (two hundred seventy-five thousand dollars) for deposit into the General Fund no later than thirty days following the date of the order adopting this agreement.
10. Noble, in its capacity as an examiner, will verify compliance with this Agreement in its entirety no later than November 30, 2009.
11. The Department agrees to accept Respondent's compliance with the terms of this Agreement as full resolution of the Examination and all matters arising out of the Claims and the Department agrees that no further action will be taken against Respondent by the Department in connection with the Hail Storm so long as Respondent complies with its obligations under this Agreement.
12. The Respondent understands that failure to comply with this Agreement and resulting order could result in additional consequences.
13. The documents produced by Respondent pursuant to this Agreement will be held as confidential by the Department as examination work papers under the Indiana code.
14. The Respondent and the Department have read and understand the terms of this Agreement, agree that the terms and conditions set forth herein in these THEREFORE clauses constitute the sole conclusions of the Examination and Agreement, and agree to be bound by the terms and conditions set forth herein.

May 12, 2009  
Date Signed

Myra C. Selby  
Myra C. Selby, Attorney  
Counsel for Respondent

MAY 12, 2009  
Date Signed

Valerie Clinton  
State Farm, Respondent  
By: VALERIE CLINTON  
Its: VICE PRESIDENT OPERATIONS

May 12, 2009  
Date Signed

Carol A. Mihalik  
Carol A. Mihalik, Chief Deputy Commissioner  
Indiana Department of Insurance